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CHINESE RULES AND PROCEDURES
FOR CALCULATING PRODUCTION COSTS OF COTTON TEXTILES

[Comment: This report is a summarization of Part 2. "Cost Items," of the Mien Fang-chih Ch'eng-pen Chi-suan Kuei-ch'en, (Rules and Procedures for Calculating Production Costs of Cotton Textiles), published in Peiping in 1952. These rules and regulations are based on the principles of "process cost and class cost accounting," and aim "to standardize the cost accounting principles in the textile industry, to establish and develop a strong cost control system, to promote the expeditious use of cost control in the financial calculations of factories, and to have a complete and proper uniform cost accounting system in all textile mills."]

Cost Items

The items listed below are all functional cost items and belong in the category of production support departments (generation and distribution of electricity, maintenance, supply of water and steam, etc.), and direct production departments. These costs should all be entered into departmental cost calculations, and converted into functional items of cost in accordance with the services rendered by the departments. In making the proper allocation, various costs should not be directly recorded as cost items if they are of a similar nature but of a dissimilar function.

Cost items are divided into raw materials, important materials, supplementary materials, fuel and power used in technical processes, wages and supplementary wages for production workers, losses from work stoppages, workshop expenses, consignment processing expenses, and administrative expenses.

1. Raw materials refer to materials which are used directly in the manufacture of a product and which are a constituent part of it (raw cotton, reclaimed cotton, processed and unprocessed yarn purchased from other sources, etc.). The cost of waste cotton from the manufacturing process is deducted.
2. Important materials refer to special materials such as starch, yarn, etc., which are consumed in the manufacturing process.
3. Supplementary materials refer to all materials in production departments which are directly or indirectly consumed in the manufacturing process or in strengthening production capacity, and all those materials which are not a constituent part of the product (expendables used during manufacturing and packing such as string, waterproofed paper, etc., and miscellaneous mechanical parts which are not fixed assets).

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4. Fuel used in technical process refers to liquid and solid fuels consumed (does not include coal used for steam).

5. Power used in technical process refers to power consumed in the manufacture of a product (electricity, steam, etc., including distribution expenses, but not plant illumination expenses).

6. Direct production workers' wages refer to wages for those workers directly concerned with the manufacture of a product (does not include experimental workers, statisticians, cost clerks, etc.).

7. Supplementary wages refer to only to supplementary wages for those directly concerned with the manufacture of a product.

8. Work stoppage losses refer to losses from work stoppages of short duration (one hour and above) and includes all expenses incurred during work stoppage.

9. Workshop expenses refer to all production expenses concerned with the manufacture of a product. Further detailed breakdown is as follows:

Wages and supplementary wages for workshop personnel of production departments, including foremen, technicians, accountants, clerks, workshop cost finders, etc.

Steam, includes sprayer, starching yarn, steam heat

Water, sprayers, drinking water, includes cost of water supply

Illumination, lighting and distribution expenses of production departments

Maintenance, repair and upkeep of buildings, machinery, etc.

Depreciation of fixed assets

Depreciation of low-value, easily expended items, i.e., tools, work clothes, instruments, etc.

Expenses for all types of expendables (toilet paper, etc.)

Insurance, fire, calamity, etc.

Research and experimentation, all expenses incurred from experimentation during production, includes wages and supplementary wages for experimental workers

Office expenses, paper, printing, telephone, etc.

All expenses not already included, such as books, newspapers, periodicals, health fees, etc.

10. Consignment processing refers to expenses incurred from the processing of consigned materials from other production organs.

11. Management expenses refer to all expenses incurred in the operation of the basis unit; detailed breakdown is as follows:

Wages and supplementary wages for management personnel

Supply personnel expenses, all expenses except traveling

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Taxes, in addition to goods, unified distribution, commercial and stamp taxes, also regular and temporary taxes

Water, electricity, and coal expenses

Postal and communication expenses, telephones, mailing, cablegrams, etc.

Printing, stationery, record sheets, etc.

Traveling expenses, gasoline, oil, buses, etc.

Shipping, includes loading and unloading

Insurance, expenses necessary for the protection of fixed and current assets

Depreciation of fixed assets

Depreciation of low-value expendables, all those items which are not fixed assets, such as tools, instruments, work clothes, etc.

Expendables

Maintenance

Rent, includes rent for all units of the enterprise

Receptions, expenses for parties held in line of business

Clothing, work clothes and uniforms

Research and improvement, all those expenses incurred in experimentation dealing with improvement of the product

Contributions, in accord with government law, for unemployed and relief funds

Samples, all expenses incurred in recommending, exchanging, and exhibiting the product

Publishing, all expenses from publications dealing with product

Books and newspapers, expenses for purchase of these items

Interest, on loans, cannot be compensated by profits

All other expenses not included in above

12. Enterprise management organs' expenses refer to these higher office management expenses distributed proportionally. As a cost item, such expense is charged to the original department where the finished goods are produced. This cost is not deducted from goods in process or semifinished products.

13. Other expenses refer to all other outlays or losses not calculated as costs, but disposed of under profit and loss.

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